



MEMORANDUM - OFFICE OF RECOVERY & REINVESTMENT

To: JoAnna Richard, Deputy Secretary – Wisconsin Dept. of Workforce Development

From: Chris Patton, Director

Re: Financial Review – South Central Wisconsin Workforce Development Board

Date: May 13, 2010

The Wisconsin Office of Recovery and Reinvestment (ORR) contracted with Jefferson Wells to conduct on-site reviews of non-profit entities that received Recovery Act funding from more than one federal/state program. In summary, the review was primarily financial in scope and encompassed risks and mitigating control activities related to the Entity Level Control Environment, Financial Reporting, Purchasing and Disbursements, Banking/Treasury, HR/Payroll, and Fixed Assets processes, and comprised of the following activities:

- Review of policies, procedures, and documented controls.
- Review of external auditor reports and evidence for remediation of findings.
- Inquiry of management to acquire a general understanding of entity relationships, transaction flows, and monitoring controls.
- Observation of transaction flows and control activities via process walkthroughs.
- Review of system access reports for adequate segregation of duties.
- Review for evidence of operational effectiveness of key controls, including account reconciliations, transaction authorizations, and appropriate disposition of assets.
- Review of transaction detail on a sample basis for evidence that funds have been appropriately accounted for and/or disbursed.

The reviewers met with both management and financial staff to review the activities and controls associated with Recovery Act grants or the administrative financial controls in place prior to receipt of the grant funding. The common grants that have been issued to South Central Wisconsin Workforce Development Board include the following:

PROGRAM	STATE/ FEDERAL AGENCY	AWARD AMOUNT
WIA Adult, Dislocated, and Youth Workers	DWD/DOL	2,170,1492

Additionally, some entities have been awarded funds directly from a federal agency and the controls and procedures associated with these awards have also been reviewed at a high level.

The on-site review of South Central Wisconsin Workforce Development Board was performed from March 1st through March 4th, 2010. The review was primarily financial in scope, and focused on the agency's capabilities to mitigate the risk of fraud, waste, and abuse through internal controls including but not limited to management oversight, segregation of duties, and restricted access. As stated in more detail in the attachment from Jefferson Wells, the review focused on policies and procedures, past audit reports, management and board engagement, transaction flows, system access, operational effectiveness of key controls and transaction details.

Upon completion of the review and examination of the supporting documentation, no instances of fraud, waste or abuse were noted. However, the following observations were noted from the reviewers along with recommendations suggested by ORR that may assist in mitigating any risk associated with the observations:

Whistleblower Policy:

Observation: The Agency does not have a documented whistleblower policy.

Recommendation: The Recovery Act has very specific whistleblower provisions. To better understand the applicability of these provisions, attached is the link to the United States Office of Management and Budget's website <http://www.recovery.gov/Contact/ReportFraud/Pages/WhistleBlowerInformation.aspx>. Best practices would include communication of the agency's Whistleblower Policy to all employees to facilitate the reporting of any improprieties occurring within the organization. Best practices also include creating methods of allowing anonymous reporting of fraud or abuse.

Background Checks:

Observation: The agency does not conduct background checks on its employees, and lacks a policy requiring background checks. Background checks for new hires, employees transferring to positions of management or cash handling functions, or for those employees involved in programs with potential liability (e.g. interaction with children, access to recipient homes, etc.) are important to reduce risk to the agency.

Recommendation: Best practices would include performing background checks on employees before transitioning to positions that have senior management responsibilities, cash handling duties, or program requirements.

Conflict of Interest Policy:

Observation: The agency has a Conflict of Interest policy that is communicated to board members and employees. Currently, all employees and Board members do not sign and disclose potential conflicts upon hire or appointment, or annually thereafter.

Recommendation: Best practices would include creating a policy requiring Board Members and all existing employees to annually acknowledge the code of conduct and certify compliance and disclosure of potential conflicts to the agency. Periodic communication of the policy and disclosure of potential conflicts reduces the risk that potential conflicts are not identified and reported.

Segregation of Duties:

Observation: Due to the limited number of financial staff maintained by the Agency (currently one full time and one intern), adequate segregation of duties and restricted system access is not possible. The agency seeks to mitigate the risk resulting from a lack of segregation through independent management oversight. However, some gaps in management oversight were noted (see below).

Recommendation: The board of directors and management should consider establishing an internal control policy that addresses system access related to executing or reviewing certain financial transactions. In most cases it is optimal that a minimum number of individuals have the ability to perform certain tasks, while management, supervisors or other individuals that are not involved in the process have the ability to review the transactions that were performed. Best practices would include creating documented, independent reviews, timely reconciliations, and sign offs by preparers and reviewers.

Management Oversight:

Observation: The lack of a consistent and documented management review process increases the risk that errors and/or fraudulent activities may not be detected on a timely basis. Noted deficiencies include:

1. Accounting – The lack of an independent review of all financial transactions against supporting documentation poses the risk of inaccurate and/or invalid accounting transactions being processed.
 - The external audit report for the year ended 6/30/2009 cited a material weakness in that the SCWWDB does not have a sufficient internal control structure to complete the financial statement preparation. This finding was discussed in the January 13, 2010 Executive Committee meeting. The agency plans to bid out the financial statement preparation in March 2010.
 - The manual journal entries posted to the system did not contain evidence of independent review.
 - A reconciliation of activity included on CORE to the Agency's general ledger is prepared in Excel; however, there is no independent review of the reconciliation.

2. Accounts Payable - Lack of independent review and proper supporting documentation in the Accounts Payable process poses the risk of unauthorized payment of invalid or fraudulent invoices. Management review becomes especially necessary where proper segregation of duties does not exist (see also *Segregation of Duties* section above).

- There was no evidence that the expense reimbursement requests of the Contracts Procurement Manager and the Executive Director were independently reviewed by a higher level employee or Board member. Also, the Executive Director's procurement card activity was not reviewed by a Board member. Instances were also noted in which the procurement activity of other employees did not contain evidence of review by the Executive Director.
- The appropriate program to be charged is not always clearly documented. One instance was noted in which ARRA was charged for the initial purchase of goods (\$54.49); however, upon the return of a portion of the purchase (\$22.05), the return was allocated among all programs.
- Timesheets for the hourly employees are not consistently signed by their supervisor. Documents for three payrolls were reviewed, and five instances were identified in which an hourly employee's time sheet was not signed by their supervisor and one instance in which a time sheet was not on file, even though the employee was paid.
- Instances were noted in which a credit card summary receipt was provided as support rather than the detailed receipt. As such, compliance with policy could not be verified

3. Banking/Treasury

- While still a current member, one Board member has changed positions on the Board and should no longer be a signatory; however, the signature card(s) have not been changed.
- With automated signatures applied to the checks by the system, the Finance Manager's system access and access to the check stock could allow them to circumvent the Executive Director's oversight in generating payments.
- The electronic bank reconciliation in the Great Plains software used by the agency pulls the checkbook balance from a source other than the general ledger trial balance. Agency personnel were aware of a difference between the checkbook amount in the reconciliation and the detail trial balance and were working to resolve the cause.

- Independent review of the bank reconciliation was not evidenced by the Executive Director for one of four bank reconciliations reviewed during fieldwork.
4. Other – The agency provides a benefit to eligible employees in which \$1,000 in medical expenses not paid by their insurance is reimbursed. There is no definition of what qualifies as “medical”. During fieldwork, it was observed that reimbursement is being made on over the counter items such as Tylenol and Airborne.

Recommendation: In light of the limited number of staff, best practices would include requiring basic management oversight and review processes to ensure accurate financial reporting and oversight. Senior management should be responsible for reviewing and approving accounting transactions and reconciliations, accounts payable transactions, cash disbursements, and other fiscal matters. Management should also consult with a tax professional regarding the tax implications of reimbursement for medical expenses.

As a state agency with the responsibility for ensuring that sub-recipients comply with complex requirements associated with the granting of Recovery Act funds, this information is being forwarded to your attention so that you attend to the issues that may impact your specific program. ORR expects that each agency will take the appropriate steps to mitigate fraud, waste and abuse as it relates to Recovery Act funding. For your convenience, I have enclosed a copy of the Field Review Program Worksheet, which details the scope and results of the review. A copy of this memorandum is also being provided as a courtesy to South Central Wisconsin Workforce Development Board.

As a result of this review, if you require sub-recipients to demonstrate any change of policy or procedure, please forward a copy of any correspondence to the attention of the Recovery Office.

If you have any questions, you can contact Dan Subach at (608) 266-7602 or Art Stauffacher at (608) 267-3672. Thank you for your cooperation in assisting us in assuring the public of the accountability and transparency of Recovery Act funds.

cc: Pat Schramm, South Central Wisconsin Workforce Development